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TO SECSTATE WASHDC PRIORITY 1143

C O N F I D E N T I A L SECTION 1 OF 4 USNATO 2001

E.O. 11652: GDS

TAGS: ECON, EFIN, PFOR, NATO

SUBJ: ECONADS: NATO AND THE WARSAW PACT - SECURITY AND POLITICAL
IMPLICATIONS OF THE ECONOMIC SITUATION

REF: A) USNATO 1699; B) USNATO 1703; C) USNATO 1809;
D) STATE 77732

1. AS RESULT OF FURTHER ECONOMIC COMMITTEE CONSIDERATION
APRIL 7-8 OF STUDY ON SECURITY AND POLITICAL IMPLICATIONS OF
ECONOMIC SITUATION, ECONOMIC DIRECTORATE HAS PREPARED REVISED
DRAFT TO BE SUBMITTED TO SPC FOR FURTHER EXCHANGE OF VIEWS AMONG
ALLIES. REVISED DRAFT IS BASICALLY ORIGINAL US PAPER WITH SLIGHT
MODIFICATIONS TO TAKE ACCOUNT OF MORE RECENT DATA AND OF VIEWS
EXPRESSED THUS FAR BY OTHER DELEGATIONS. INTRODUCTION AND SUMMARY
AND CONCLUSIONS PORTION OF STUDY (REF A) HAS
BEEN EXPANDED TO INCLUDE IN CONCLUSIONS A SUMMARY OF EVAL-
UATION OF WARSAW PACT DEVELOPMENTS CONTAINED IN US PAPER
(PARAS 54-57 OF AC/127-WP/423 (REVISED). REFERENCE TO POSSIBLE
INCREASED RISK OF POLITICAL EXTREMISM IN SOME MEMBER COUNTRIES
IS BRACKETED AT INSISTENCE PORTUGUESE, GREEK AND DUTCH DELEGATIONS.
REMAINDER OF STUDY IS AS REPORTED REF. B WITH MINOR MODIFICATIONS
IN WORDING, TEXT PROVIDED REF D TO REPLACE ORIGINAL PARAS
18 AND 19, AND ELIMINATION OF EVALUATION OF WARSAW PACT SECTION

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WHICH NOW INCLUDED IN CONCLUSION.

2. ECONOMIC COMMITTEE WILL TAKE LAST LOOK AT REVISED DRAFT
APRIL 18 BEFORE SENDING IT TO SPC FOR FURTHER CONSIDERATION.
COVERING NOTE FROM ECONOMIC DIRECTOR TO SPC CHAIRMAN WILL IN-

CLUDE STATEMENT THAT ECONOMIC COMMITTEE HAS APPROVED STUDY ON UNDERSTANDING IT MAY BE AMENDED IN LIGHT OF FURTHER EXCHANGE OF VIEWS IN SPC. UNLESS INSTRUCTED OTHERWISE BY APRIL 17, MISSION ECONAD WILL APPROVE STUDY FOR TRANSMITTAL TO SPC. FURTHER US COMMENTS MAY BEST BE INTRODUCED DURING DISCUSSION OF STUDY IN SPC WHERE SECURITY AND POLITICAL IMPLICATIONS WILL BE EXPLORED IN GREATER DEPTH.

3. TEXT OF COVER NOTE AND REVISED TEXT OF INTRODUCTION, SUMMARY AND CONCLUSIONS FOLLOWS:

QUOTE:

CORRIGENDUM TO
AC/127-WP/423(REVISED)

DRAFT NOTE BY THE CHAIRMAN

IN COMPLIANCE WITH THE COUNCIL'S REQUEST OF 29TH JANUARY, 1975 (C-R(75)3), THE ECONOMIC COMMITTEE HAS EXAMINED THE SECURITY AND POLITICAL IMPLICATIONS OF THE ECONOMIC SITUATION FOR NATO AND THE WARSAW PACT. THE ATTACHED REPORT, WHICH THE COMMITTEE INTENDS TO REVIEW AT REGULAR INTERVALS, DOES NOT ATTEMPT TO BE EXHAUSTIVE BUT BEARS ON THE MOST ESSENTIAL ASPECTS OF THE SITUATION.

THIS DOCUMENT HAS BEEN PREPARED ON THE BASIS OF AN INITIAL CONTRIBUTION BY THE UNITED STATES DELEGATION, OF COMMENTS, SUGGESTIONS AND AMENDMENTS RECEIVED FROM SEVERAL OTHER DELEGATIONS, OR MADE DURING DEBATES IN THE ECONOMIC COMMITTEE. IT HAS BEEN APPROVED BY THE MEMBERS OF THE COMMITTEE ON THE UNDERSTANDING THAT IT WILL BE POSSIBLE FOR NATIONAL AUTHORITIES TO AMEND IT, SHOULD THEY WISH TO DO SO, IN THE LIGHT OF THE FURTHER EXCHANGE OF VIEWS WHICH WILL TAKE PLACE IN THE SENIOR POLITICAL COMMITTEE TO WHICH IT IS NOW FORWARDED.
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(SIGNED) J. BILLY

PART A: GENERAL CONSIDERATIONS AND CONCLUSIONS

INTRODUCTION

THE ECONOMIC EVENTS OF THE PAST YEARS - INFLATION, RECESSION, THE MASSIVE INCREASE IN OIL PRICES, GROWING AWARENESS OF DEPENDENCE ON CERTAIN RAW MATERIALS AND UNCERTAINTIES AS REGARDS THEIR SUPPLY - TOGETHER WITH THE PERSISTENCE OF THE INTERNATIONAL MONETARY PROBLEMS HAVE ALTERED SEVERAL ASPECTS OF THE EAST-WEST BALANCE.

2. THE DIRECT IMPACT OF THE ECONOMIC SITUATION THUS FAR

UPON THE WESTERN SECURITY STRUCTURE IS, HOWEVER, DIFFICULT TO ASSESS, BUT FOR THE MOST PART APPEARS MANAGEABLE AS LONG AS THE POLITICAL SOLIDARITY OF THE ALLIANCE IS MAINTAINED. THE PRINCIPAL RISK LIES IN THE POSSIBILITY THAT SEVERE ECONOMIC PRESSURES IN THE WEST MAY LEAD TO NATIONAL MEASURES INCOMPATIBLE WITH THE FUNDAMENTAL INTERESTS OF THE ALLIANCE.

I. THE ECONOMIC FACTORS

3. IN 1975, THE NATO COUNTRIES NOTABLY FACE IN VARYING DEGREES:

- ECONOMIC STAGNATION AND THE ATTENDANT HIGH LEVEL OF UNEMPLOYMENT, WITH LITTLE OR NOT GNP GROWTH UNTIL LATE 1975 AT THE EARLIEST;

- CONTINUED INFLATION AT A HIGH RATE, ALTHOUGH HOPEFULLY FOR A NUMBER OF COUNTRIES LOWER THAN IN 1974;

THIS DOCUMENT INCLUDES: 1 ANNEX

(1) THIS NOTE INCORPORATES THE US DELEGATION PAPER AC/127-WP/423 AS WELL AS COMMENTS AND AMENDMENTS RECEIVED FROM OTHER DELEGATIONS

- HIGH OIL PRICES WITH THE CONSEQUENT EXACERBATION OF
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BALANCE OF PAYMENTS PROBLEMS, IN SOME CASES QUITE
CRITICAL;

- NEED TO DEVELOP EXPORTS ON A MUCH WIDER SCALE;

- DEPENDENCE UPON OUTSIDE SUPPLIERS FOR A VARYING PRO-
PORTION (IN SOME CASES VIRTUALLY ALL) OF THEIR OIL
REQUIREMENTS; IN THIS REGARD THE POSITION OF NORTH
AMERICA IS HOWEVER MORE COMFORTABLE THAN THAT OF
EUROPE WHICH, IN ADDITION TO OIL, IS ALSO A LARGE
IMPORTER OF OTHER STRATEGIC RAW MATERIALS.

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C O N F I D E N T I A L SECTION 2 OF 4 USNATO 2001

4. MEANWHILE IN THE EAST:

- THE ECONOMY IS RUN IN A WAY WHICH SHIELDS IT TO A CONSIDERABLE DEGREE FROM THE IMPACT OF OUTSIDE EVENTS; THIS IS NOT SO IN THE WEST WHERE THE ECONOMIES OPERATE ON AN OPEN SYSTEM WHICH IS RECEPTIVE TO WORLD EVENTS.

- ECONOMIC GROWTH, ALTHOUGH THE 1975 OBJECTIVES HAVE BEEN SCALED DOWN, WILL CONTINUE IN WARSAW PACT COUNTRIES AND WILL EXCEED THE NATO COUNTRIES PERFORMANCE. HOWEVER, SOME SLOWDOWN OF THE INCREASE IN CONSUMER BENEFITS MAY OCCUR. IN GENERAL, THE USSR- BECAUSE OF ITS WEALTH OF RESOURCES - IS MUCH BETTER OFF THAN ITS ALLIES WHICH HAVE TO RELY UPON LARGE IMPORTS OF ENERGY AND RAW MATERIALS.

- WESTERN INFLATION HAS NO SERIOUS IMPACT ON THE USSR, EAST EUROPEANS BEING MORE DEPENDENT BECAUSE OF THE IMPORTANCE OF THEIR EXTERNAL TRADE ARE LESS FORTUNATE.

- THE USSR BENEFITS FROM A SURPLUS IN ITS CONVERTIBLE CURRENCY TRANSACTIONS. SHIFTING TERMS OF TRADE - RESULTING IN PART FROM MODIFICATIONS IN THE PRICE SETTING SYSTEM WITHIN COMECON - AND BALANCE OF PAYMENTS STRAINS IN OTHER PACT COUNTRIES WILL INCREASE
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THEIR DEPENDENCE UPON THE SOVIET UNION.

- THERE IS VIRTUAL SELF-SUFFICIENCY FOR THE WARSAW PACT COUNTRIES IN MOST CRITICAL COMMODITIES, NOTABLY OIL. WHILE AGRICULTURE IS UNPREDICTABLE, AND POTENTIALLY A WEAK SPOT, FOOD WOULD NOT SHAPE UP AS A MAJOR FACTOR IN THE EAST-WEST BALANCE, UNLESS THERE WERE A SERIOUS FAILURE IN THE SOVIET HARVESTS.

II. THE EFFECT ON SECURITY WITHIN NATO

5. IN THE SHORT TERM, ONE OF THE MOST CRITICAL PROBLEMS FACING NATO IS THE DANGER THAT CENTRIFUGAL FORCES GENERATED BY ECONOMIC EVENTS, AS ENUMERATED IN PARAGRAPH 3, MAY WEAKEN THE COHESION OF THE ALLIANCE. THERE MIGHT BE A DANGER THAT THE PURSUIT OF NATIONAL ECONOMIC INTERESTS WOULD LEAD TO BILATERAL

ECONOMIC AND POLITICAL CONCESSIONS TO EASTERN COUNTRIES, WHICH COULD JEOPARDIZE THE SOLIDARITY OF THE ALLIANCE. ATTEMPTS TO RESOLVE ECONOMIC DIFFICULTIES BY POLICIES BASED ON A NARROW VIEW OF NATIONAL INTEREST, SUCH AS PROTECTIONISM, WOULD REDUCE THE PROSPERITY AND SECURITY OF ALL. THIS WOULD, MOREOVER, TEND TO ERODE THE ABILITY OF NATO TO ACT AS A UNIFIED FORCE IN TIMES OF EMERGENCY. THERE HAVE, HOWEVER, BEEN INDICATIONS OF THE WILLINGNESS OF THE ALLIANCE TO WORK TOGETHER TO REINFORCE THEIR POLICIES OF CO-OPERATION AND CONSULTATION.

6. IT WOULD BE MISLEADING TO INFER FROM THE WEST CURRENT ECONOMIC STRAITS THAT ITS MILITARY PREPAREDNESS WILL OF NECESSITY SUFFER IN DIRECT PROPORTION. INDEED, THE DISPARITIES BETWEEN THE WEALTH, POPULATION, SOCIAL AND ECONOMIC BACKGROUND, AS WELL AS POLITICAL/ECONOMIC SYSTEMS OF NATO AND THE WARSAW PACT RENDER DIFFICULT ANY ADEQUATE ASSESSMENT OF THE ECONOMIC AND MILITARY BALANCE BETWEEN EAST AND WEST. (FOR EXAMPLE, ALTHOUGH THE NATO COUNTRIES ARE CONSIDERABLY RICHER AND HAVE RELATIVELY MORE MEN UNDER ARMS WORLDWIDE THAN DOES THE WARSAW PACT, THE LATTER EARMARKS ABOUT TWICE AS GREAT A PROPORTION OF ITS GNP FOR MILITARY EXPENDITURE, AND HAS INCREASED ITS DEFENCE OUTLAYS AT A GREATER RATE THAN HAS NATO).

7. IT IS CERTAIN, HOWEVER, THAT IF ECONOMIC PROBLEMS WERE TO GROW FURTHER, THERE WOULD BE DOMESTIC PRESSURES TO REDUCE CONFIDENTIAL

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MILITARY EXPENDITURES IN MANY NATO COUNTRIES. INDEED, IN A DETERIORATING ECONOMIC CLIMATE THERE COULD BE A WEAKENING OF THE WILLINGNESS OF THE POPULATION TO ASSERT ITSELF AGAINST POSSIBLE THREATS FROM OUTSIDE AND GROWING RELUCTANCE TO ACCEPT THE NECESSARY DEFENCE BURDENS; /START BRACKET/ THE FOREGOING COULD INCREASE IN SOME COUNTRIES THE RISK OF POLITICAL EXTREMISM /END BRACKET/. ANOTHER FACTOR WORKING TOWARDS A CONTRACTION OF MILITARY EXPENDITURES COULD WELL BE THE NEED TO FIND ADDITIONAL FINANCE FOR CONSERVATION AND DEVELOPMENT OF ENERGY AND BASIC PRODUCTS. WHILE SUCH REDUCTIONS MIGHT BE MANAGED SO AS TO MINIMIZE THEIR IMPACT ON THE WEST'S ABILITY TO DETER OVERT MILITARY AGGRESSION, THEY COULD GENERATE NEW STRAINS WITHIN THE ALLIANCE ON THE ONE HAND, AND MISLEADING POLITICAL PERCEPTIONS ON THE PART OF THE WARSAW PACT AS TO DEPTH OF NATO SECURITY COMMITMENTS ON THE OTHER. SUCH REDUCTIONS COULD HAVE AN ADVERSE EFFECT ON THE COMMON DEFENCE TO THE EXTENT THAT THEY WOULD:

- IMPLY A LACK OF POLITICAL WILL ON THE PART OF THE NATO MEMBERS TO KEEP PACE WITH THE WARSAW PACT IN THE AREA OF DEFENCE COMMITMENTS;
- HAMPER NATO FORCE IMPROVEMENT PROGRAMMES; AND
- STRAIN WESTERN ABILITIES TO MAINTAIN UNIFIED POSITIONS

ON EAST-WEST POLITICAL AND MILITARY NEGOTIATIONS.

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C O N F I D E N T I A L SECTION 3 OF 4 USNATO 2001

III. THE OIL PROBLEM: NATO AND WARSAW PACT

8. IN SHARP CONTRAST TO THE WARSAW PACT COUNTRIES WHICH, AS A GROUP, ARE SELF-SUFFICIENT IN OIL (THE USSR IS EVEN ABLE TO EXPORT TO THE NON-COMMUNIST AREA SOME FIFTY MILLION TONS OF PETROLEUM A YEAR) MOST NATO COUNTRIES ARE HEAVILY DEPENDENT ON OUTSIDE SOURCES FOR THIS ESSENTIAL PRODUCT. IN THIS REGARD, HOWEVER, A DISTINCTION SHOULD BE DRAWN BETWEEN THE NORTH AMERICAN MEMBERS WHO, TOGETHER, WOULD BE ABLE TO PULL THROUGH AND THE EUROPEAN ALLIES WHO - DESPITE EMERGENCY SHARING ARRANGEMENTS - WOULD BE IN A MORE VULNERABLE POSITION SHOULD SUPPLY LINES BE DISRUPTED THROUGH WARSAW PACT ACTION. THE DEPENDENCE OF NATO COUNTRIES, AS A WHOLE, ON COMMUNIST COUNTRIES' OIL IS VERY LIMITED; IN 1973 IMPORTS AMOUNTED TO ONLY 28 MILLION TONS (I.E. ABOUT 3 PCT OF OVERALL IMPORTS). HOWEVER, THE DEGREE OF DEPENDENCE IS PARTICULARLY IMPORTANT IN THE CASE OF ICELAND (ABOUT THREE-QUARTERS OF HER OIL IS IMPORTED FROM THE SOVIET UNION). AN ADDITIONAL CONSIDERATION IN THE MEDIUM TERM WOULD BE THE GROWING ROLE OF THE USSR AS A SUPPLIER OF NATURAL GAS TO A NUMBER OF WEST EUROPEAN COUNTRIES.

9. THE PROBLEM OF RELATIONS WITH THE OIL PRODUCING AND EXPORTING COUNTRIES - ALTHOUGH NOT DIRECTLY WITHIN THE AREA OF NATO RESPONSIBILITY - CANNOT BE OVERLOOKED IN VIEW OF THE ECONOMIC, STRATEGIC AND POLITICAL IMPLICATIONS OF POSSIBLE CHANGES IN THE PRICE OF OIL, IN LEVELS OF PRODUCTION AND IN

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ARRANGEMENTS TO ENSURE A REGULAR FLOW OF SUPPLIES. IT IS UN-
LIKELY THAT DELIVERIES TO NATO WOULD BE CURTAILED FOR ECONOMIC

CONSIDERATIONS. INDEED THE AMBITIOUS DEVELOPMENT PROGRAMMES WHICH MANY OPEC COUNTRIES HAVE LAUNCHED, AND THE RESERVES THEY ARE ACCUMULATING IN WESTERN CURRENCIES, MAKE THEM DEPENDENT ON POLITICAL, ECONOMIC AND FINANCIAL STABILITY IN THE WEST, AS WELL AS ON WESTERN FOOD, TECHNOLOGY AND EQUIPMENT. ATTEMPTS TO FRUSTRATE WESTERN EFFORTS TO IMPROVE THE CURRENT ECONOMIC SITUATION WOULD BE TO THE DETRIMENT OF THE OIL EXPORTERS OWN INTEREST.

IV. INTERNAL & EXTERNAL ECONOMIC RELATIONS OF THE WARSAW PACT COUNTRIES

10. IT IS EXPECTED THAT THE USSR WILL CONTINUE TO INCREASE ITS IMPORTS - MAINLY OF EQUIPMENT AND MACHINERY - FROM THE CONVERTIBLE CURRENCY OVER THE NEXT SEVERAL YEARS. THESE IMPORTS - ESTIMATED AT SOME \$7.5 - 8.5 BILLION THIS YEAR, AND GROWING SOMEWHAT OVER THE NEXT SEVERAL YEARS - ARE OF IMPORTANCE TO INDIVIDUAL WESTERN INDUSTRIES. THEY ALSO TEND TO INCREASE, ALBEIT NOT TO A MAJOR DEGREE, SOVIET/WEST INTERDEPENDENCE. ON THE OTHER HAND, THERE IS A GREATER DEGREE OF INTERDEPENDENCE BETWEEN SEVERAL OTHER COMECON COUNTRIES AND THE WEST DERIVED FROM GROWING TRADE RELATIONS. EVEN IF IN THE CASE OF GROWING MUTUAL TRADE RELATIONS THE RESULTING DEPENDENCE OF THE EAST MAY BE SIGNIFICANT WITH RESPECT TO INDIVIDUAL PROJECTS, NEVERTHELESS, IT IS LIKELY TO BE INFERIOR TO THAT OF THE WEST WHEN SEEN IN OVERALL ECONOMIC TERMS. MOREOVER, A PERSISTENCE, OR WORSENING, OF ECONOMIC TROUBLES IN THE WEST COULD INCREASE THE IMPORTANCE OF COMMUNIST MARKETS FOR NATO COUNTRIES. ON THE OTHER HAND, CURRENT EFFORTS AIMING AT INCREASED ECONOMIC INTEGRATION IN COMECON ARE LIKELY TO LIMIT SOMEHOW THE DEGREE OF DEPENDENCE OF WARSAW PACT COUNTRIES ON TRADE WITH THE NON-COMMUNIST WORLD.

11. MOST EAST EUROPEAN COUNTRIES WILL HAVE TO BOOST EXPORTS TO THE USSR, AS FROM THIS OR NEXT YEAR, TO PAY THE INCREASED BILL FOR SOVIET OIL. TO SOME EXTENT, OF COURSE, THE RISE IN SOVIET PRICES WILL BE OFFSET BY THE HIGHER PRICES QUOTED BY THE EAST EUROPEANS FOR THEIR OWN PRODUCTS. NEVERTHELESS, SUCH A DEVELOPMENT MAY NECESSITATE A SLOWDOWN IN THE RATE OF GROWTH OF THEIR EXPORTS TO THE WEST (BUT NOT NECESSARILY A REDUCTION IN ABSOLUTE

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TERMS) AND/OR A SLOWER RATE OF GROWTH IN THE AMOUNT OF MANUFACTURED GOODS DESTINED FOR THEIR DOMESTIC MARKETS. IN ANY CASE, IT IS QUITE LIKELY THAT THEIR DEPENDENCE UPON THE SOVIET UNION WILL BE INCREASED; THIS COULD TO SOME EXTENT BE ALLEVIATED IF MEDIUM AND LONG TERM CREDITS WERE AVAILABLE FROM THE WEST. HOWEVER, THIS MAY BECOME LESS EASY FOR TWO REASONS:

(I) WESTERN COUNTRIES ARE CURRENTLY CONSIDERING A TIGHTENING OF THE TERMS UNDER WHICH EXPORT CREDITS ARE GRANTED.

(II) AS SOME COMECON COUNTRIES INDEBTEDNESS GROWS, NATO

COUNTRIES MAY HESITATE BETWEEN THE POLITICAL INTEREST OF HELPING CERTAIN EAST EUROPEAN COUNTRIES WITH EXPORT CREDITS AND THE RISK OF DEALING WITH INSOLVENT DEBTORS. THERE IS NO DOUBT THAT THE EXISTING DEBT BURDEN OF SEVERAL EASTERN COUNTRIES WILL CONSTRAIN THEIR ABILITY TO FINANCE FURTHER IMPORTS FROM CONVERTIBLE CURRENCY AREAS.

12. ALTHOUGH THE SHORT TERM PROSPECTS OF ECONOMIC GROWTH OF THE SOVIET ECONOMY SEEM BETTER THAN THOSE OF NATO COUNTRIES, THE COMPARISON SHOULD NOT BE OVERPLAYED. WHILE COMMUNIST COUNTRIES DO NOT SUFFER FROM RECESSION, AS THIS TERM IS UNDERSTOOD IN THE WEST, THEIR ECONOMIES HAVE EXPERIENCED AND MAY STILL

EXPERIENCE SOME FLUCTUATIONS AND SETBACKS, AND ARE BESET WITH MAJOR STRUCTURAL WEAKNESSES, LARGELY AS A RESULT OF THEIR SYSTEM OF CENTRALISED PLANNING. IN ADDITION, THEIR ECONOMIC GROWTH STARTS FROM A MUCH LOWER BASE. USSR PER CAPITA GNP, FOR EXAMPLE, IS STILL WELL BELOW THAT OF MOST NATO MEMBER COUNTRIES. THE OTHER WARSAW PACT COUNTRIES HAVE AN EVEN LOWER PER CAPITA PRODUCT, APART FROM CZECHOSLOVAKIA AND THE GDR.

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C O N F I D E N T I A L SECTION 4 OF 4 USNATO 2001

V. CONCLUSIONS

13. ECONOMIC DEVELOPMENTS OF THE LAST TWO YEARS HAVE, ON BALANCE, BENEFITED THE WARSAW PACT AS A WHOLE, WHILE CREATING A NEW SET OF PROBLEMS FOR NATO MEMBERS. NEVERTHELESS, IT IS RECOGNIZED THAT THE INDUSTRIAL CAPACITY OF THE WEST REMAINS SUPERIOR TO THAT OF THE SOVIET UNION AND ITS ALLIES. IN THE EVENTUALITY OF A PROTRACTED CONFRONTATION, HOWEVER, WHEREAS THE WARSAW PACT WOULD BE PRACTICALLY SELF-SUFFICIENT IN ENERGY AND STRATEGIC RAW MATERIALS, THE NATO ALLIES WOULD BE DEPENDENT - THE EUROPEANS TO A VERY LARGE EXTENT, AND THE NORTH AMERICANS MUCH LESS SO - ON RAW MATERIALS AND ENERGY IMPORTED FROM AREAS WHICH ARE NOT UNDER THEIR CONTROL OR EVEN NECESSARILY FRIENDLY.

14. NATO COUNTRIES WILL HAVE TO CONTINUE TO MAKE DETERMINED EFFORTS TO COPE SIMULTANEOUSLY WITH PERMANENT INFLATION AND A STATE OF RECESSION PARTLY DUE TO EXTERNAL FACTORS, SUCH AS THE CHANGED CONDITIONS ON THE WORLD MARKETS FOR ENERGY AND BASIC PRODUCTS.

15. THIS NEW SITUATION IN THE WEST WHICH INVOLVES A DECLINING REAL DOMESTIC PRODUCT, UNEMPLOYMENT AND MORE PRESSING SOCIAL CLAIMS, CONSTITUTES AN ADDITIONAL STRAIN ON PUBLIC RESOURCES AND ACTS AS A BRAKE ON THE POLITICAL WILL TO MAINTAIN DEFENCE PROGRAMMES.

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16. WARSAW PACT ECONOMIES, ALTHOUGH SEEMINGLY MORE STABLE THAN THOSE OF THE WEST, HAVE SERIOUS STRUCTURAL WEAKNESSES: BOTTLENECKS IN THE IMPLEMENTATION OF THEIR INDUSTRIAL PROJECTS, UNDER-EMPLOYED LABOUR, LOW PRODUCTIVITY - IN PARTICULAR IN AGRICULTURE - AND TOP HEAVY BUREAUCRACY. HOWEVER, DOMESTIC ECONOMIC UPS AND DOWNS HAVE NO IMPACT ON MILITARY PROGRAMMES, AND THERE IS NO INDICATION THAT CURRENT ECONOMIC FACTORS WILL CAUSE ANY CHANGES IN WARSAW PACT MILITARY BUDGETS.

17. SOVIET ECONOMIC INTER-RELATEDNESS WITH THE WEST WILL GROW BUT NOT ON A MAJOR SCALE. IN VIEW OF THEIR SPECIFIC ECONOMIC PROBLEMS, WARSAW PACT COUNTRIES WILL CONTINUE TO RELY ON SUBSTANTIAL IMPORTS OF WESTERN TECHNOLOGY AND EQUIPMENT. AT THE PRESENT JUNCTURE, EVEN MORE THAN IN THE PAST, THESE COUNTRIES MAY TRY TO TAKE ADVANTAGE OF CURRENT EFFORTS BY WESTERN COUNTRIES TO DEVELOP THEIR EXPORT MARKETS (AND THE GREATER DEGREE OF COMPETITION THIS INVOLVES BETWEEN EXPORTERS) TO PLAY OFF ONE NATO COUNTRY AGAINST ANOTHER. THE SOVIETS MAY THUS EXTRACT FROM THE WEST POLITICAL, ECONOMIC AND COMMERCIAL CONCESSIONS (IN PARTICULAR WITH REGARD TO FINANCIAL FACILITIES AND EXPORT CREDIT TERMS). SUCH ATTEMPTS, IF NOT FRUSTRATED, COULD WEAKEN THE POSITION OF THE ALLIANCE AND BECOME A DIVISIVE FACTOR BETWEEN MEMBER COUNTRIES.

18. CURRENT DEVELOPMENTS WITHIN THE ALLIANCE CLEARLY DEMONSTRATE THE INTERDEPENDENCE OF MILITARY, POLITICAL AND ECONOMIC FACTORS, ALL OF WHICH COULD AFFECT ITS SECURITY IN A SITUATION OF EMERGENCY.

19. THE PRESENT SITUATION WOULD SEEM TO CALL FOR MEMBER COUNTRIES TO GIVE GREATER CONSIDERATION TO THE POLITICAL AND SECURITY INTERESTS OF THE ALLIANCE WHEN ADOPTING POSITIONS IN INTERNATIONAL FORA SPECIALIZED IN ECONOMIC MATTERS. THIS WOULD HELP TO AVOID POSSIBLE CONFLICTS BETWEEN PROPOSED ECONOMIC MEASURES AND DEFENCE REQUIREMENTS.

20. THE PRESENT ECONOMIC DIFFICULTIES AND THE NEED

TO MAKE THE BEST USE OF PUBLIC RESOURCES TO OVERCOME
RECESSION WITHOUT FEEDING INFLATION LEND A NEW URGENCY TO
PLANS FOR HARMONIZATION AND RATIONALIZATION WITHIN NATO OF
ARMAMENTS AND EQUIPMENT.
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